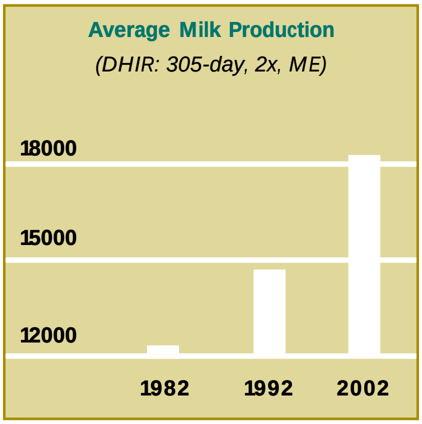
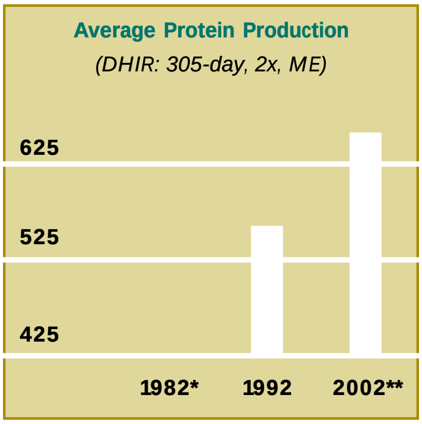
2002 Annual Report

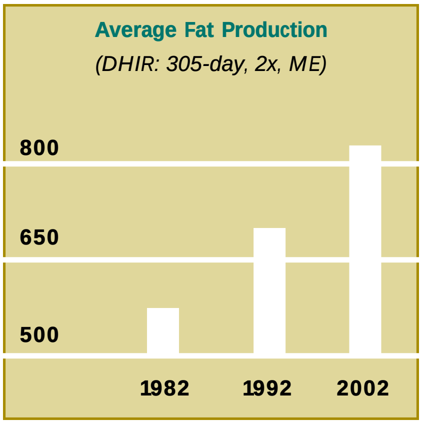
American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation

2002 was a year filled with challenges. It was also one of the best years in our history.





* *Not available*
** *Measured as true protein*



What happened to the dairy economy in 2002 is well documented. Across the United States, cow numbers increased, and so did production per cow. But consumption failed to keep pace. The restaurant trade, a key marketing segment for cheese and butter, was sluggish. Generally, sales of dairy products lagged. Milk prices fell to levels not seen in 25 years, and in their wake, margins of profit eroded, or even disappeared.

For the same 12- month period, the American Jersey Cattle Association (AJCA) and National All-Jersey Inc. (NAJ) reported all-time records, for:

- Average product yield per cow;
- The number of cows enrolled on performance programs;
- The number of cows evaluated for type traits;
- REAP enrollment; and
- Equity investment.

2002 was also the fourth-best year for registrations in the AJCA's 134-year history, capping a period of sustained growth that has not been seen for nearly 50 years.

And, growth was recorded in other important service areas of the Jersey organizations.

Why? Why, when dollars are scarce, would Jersey owners increase their demand for services from these organizations? Why would other herd owners be adding strings of Jerseys, or beginning herd conversions? And what could possibly explain the fact that, for 2002, the National Association of Animal Breeders reported record domestic sales of Registered Jersey bull semen?

The answers are simple. The Jersey cow has unusual value in a tight dairy economy—the ability to produce more valuable milk—and the services of the American Jersey Cattle Association and National All-Jersey Inc. add to that value every day of the year.

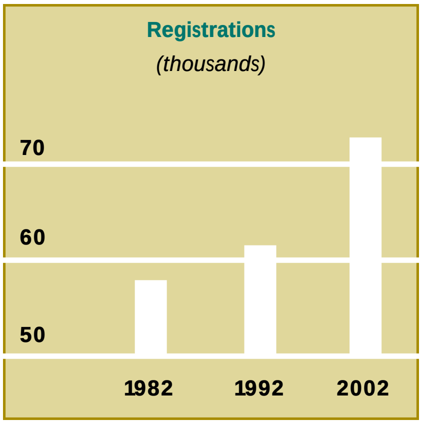
So, confidence persists among Jersey breeders that the ups and downs of 2002, like those that have come before, can and will be ridden out to better days. And for commercial producers, the historic drop in prices has prompted them to search for ways to increase profit margins, a search that is leading straight to the Jersey cow and Jersey genetics.

Jersey production has increased by almost 50% in the past 20 years.

In 1982, the average of all records processed by the AJCA eeked past 12,000 lbs. milk, to 12,067 lbs. Today's Jersey produces one and a half times as much as she did two decades ago. New production standards were established in 2002: 18,039 lbs. milk, 823 lbs. fat, and 641 lbs. protein (305-day, 2x mature equivalent).

These averages were calculated from 60,132 records with a data collection rating (DCR) of at least 90, completed by cows recorded in the AJCA Herd Register, or having PR or GR status through the Genetic Recovery program. The number of lactations is also an all-time record.

The previous record for high fat production in one herd was shattered by more than 60 lbs. in 2002. The new record belongs to J. Craig and Susan E. Wicker of Centre Hall, Penna., with 18 lactations averaging 1,346 lbs. fat. The top herds for milk and protein in 2002, though not record-setters, were owned by Keith S. Hockett, Randelman, N.C., (26,699 lbs. milk on 48 records) and Melissa R. Kortus of Lynden, Wash. (17 lactations averaging 926 lbs. protein).

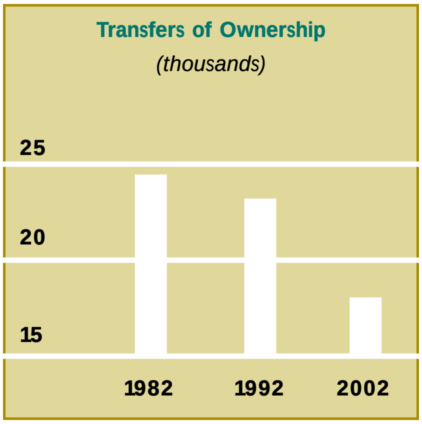


The yield of cheese per hundredweight also set a new record.

On a cheese yield basis, the breed average is now 2,159 lbs. The average yield of Cheddar cheese increased to 12.37 lbs. per hundredweight (cwt.), leading the majority breed by 23.3%, or 2.34 lbs. per cwt.

Auction sales of Registered Jerseys continued to show strong demand, with quality, large volume sales making for one-stop shopping.

Auction sales in 2002 had a tough act to follow. 2001 was a record year for receipts at public auction (over $9,000,000 on nearly 5,200 head) and boasted an average sales price of $1,742.40, the second high in history.



There were fewer Jerseys sold at auction in 2002—3,008 in 40 different sales—but the average price was a mere $25 lower, at $1,717.34. Large volume sales were the story of the year, delivering efficiency for buyers and creating more marketing opportunities for sellers.

The 50th All American Jersey Sale on November 10 was the top sale of 2002, averaging $4,560.96 on 73 head. Seven of the 10 high selling animals of the year went across the auction block in Louisville, Ky. Second on the list of top sales was the National Heifer Sale, held during the Annual Meetings in Sacramento, Calif. Its average of $3,506.42 on 62 heifers was the second best in the series' history dating from 1958,

Domestic sales of Jersey semen increased by 15.0% last year.

Domestic semen sales are closing in on the 1,000,000 unit mark. The National Association of Animal Breeders reported a new sales record for Jersey semen: 954,473 units, an increase of 124,719 doses over 2001. It was the fourth time in the past five years that semen sales inside the United States have increased by more than 50,000 units during the year. More notably, sales are growing at an accelerating rate. The 15.0% increase of 2002 over 2001 almost doubled that of 2001 over 2000.

Export sales declined last year to 483,527 units. Total domestic and export sales were 1,438,000 units in 2002, an increase of 7.6% over 2001's sales of 1,336,902 units.

Registrations exceed 70,000 for only the sixth time in history as AJCA performance programs serve nearly 110,000 cows.

As Labor Day approached last fall, the question was not whether the American Jersey Cattle Association would record 60,000 animals in 2002, but when. "When" was October 22, 2002, spurring speculation that a 70,000 year was possible.

By the close of business on December 31, the Association had recorded 72,507 animals, an increase of 7.1% over the previous year. A total of 8,508 animals were recorded through Genetic Recovery (up 0.31% over the previous year). There were 941 Jersey-sired females recorded with the J1 prefix under the Jersey Expansion identification service, a 72.0% increase over the previous year.

2002 was the fourth-best year for registrations in the 134-year history of the AJCA. The only years that were better were 1953, when 87,682 were recorded during a fee moratorium; 1947, when an accumulated backlog of applications was cleaned up after the move from

The Cover

Clockwise from top left:

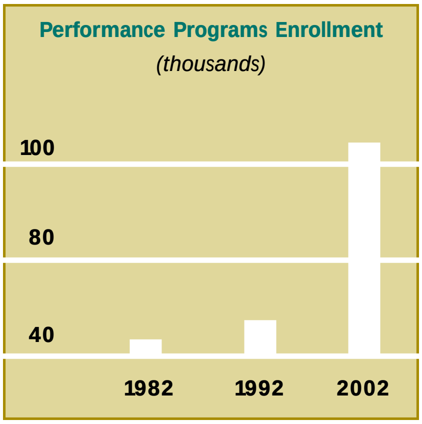
Part of the herd at Ahlem Farms, Hilmar, Calif., the top large herd for protein yield in 2002, with a 781-lb. average on 1,993 records. Right inset: On the March 2002 *Journal* cover, the largest REAP herd in the U.S., Horizon Dairy of Tipton, Calif.

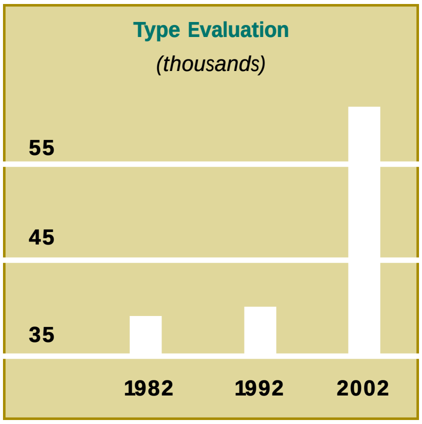
Jersey heifers identified for registration with JerseyTags, tamperproof American ID tags introduced in the fall of 2002.

The headquarters office in Reynoldsburg, Ohio, in April and during the mid-February snowstorm.

Dr. Jesse Goff of the National Animal Disease Center demonstrating a calcium gel treatment, developed with support from the AJCC Research Foundation *(ARS photo)*. Left inset: The timeless appeal of the Jersey cow on display at milking time.

National Jersey youth contest winners Alex and Veronica Steer, with Sunbow Freedom Jewel, bred and consigned by Alex to the 2002 All American Jersey Sale where she sold for $10,000.





More, better, faster. More cows on REAP means more cows are being evaluated under the Functional Type Traits Appraisal program, increasing the need for fast and accurate data collection. To meet that need, new handheld computers sporting faster processors and larger memory were put into the field during 2002. The result has been improved service during the on-farm appraisals and greater efficiency in transferring the data from the field into the office.

New York City to Columbus; and 1928, when the Board of Directors mandated that only purebred and registered Jersey herds could market milk using the Creamline label. Most importantly, registration growth is being sustained. 2002 was the fourth consecutive year that the Association has recorded at least 60,000 animals. That level has not been maintained since the years 1952, 1953, 1954 and 1955.

During the year, 19,177 registrations were processed by herd owners using *infoJersey*, the 24/7 Internet service site. In all, 55.5% of the registrations processed were received electronically, an increase of 9.5% over the previous year. Faster turn-around and cost savings continue to accumulate for customers through electronic registration.

After an increase in 2001, ownership transfers dropped below 20,000 in 2002. The 17,912 animals transferred are 17.3% fewer than were processed in 2001, and 26.4% fewer compared to transfer activity a decade ago.

One record was shattered in 2002. At year end, 109,608 cows in 916 herds were enrolled on AJCA production and type appraisal services. This was a 7.9% increase over 2001, which was the first time the Association provided service on more than 100,000 cows. The vast majority—103,374 cows, or 94.3% of the total—were in REAP herds. So 2002 also entered the record books as the first year that REAP enrollments crossed the 100,000 mark.

Building upon its 6.6% growth in 2001, the number of cows scored under the Functional Type Traits Appraisal program grew by another 3.5% to an all-time record of 60,762.

Following approval of a Bylaws amendment by the membership at the 2002 Annual Meeting, the Association began to deliver tamperproof American ID eartags to herd owners seeking an alternative to tattooing calves. Other herd services program enhancements were made in 2002, particularly to improve the JerseyMate™ mating service. Many of the changes were responsive to feedback from the program's users. Additional work planned for 2003 will allow breeders to customize their selection goals.

After 20-plus years of service, the Production Type Index (PTI) was retired on August 12 following implementation of the Jersey Performance Index™ (JPI). The replacement index, approved by the Board during its June meeting, incorporated new information from several different research projects to improve and update bull and cow rankings. The total weight on traits related to longer herd life and lower culling risk was increased from 22.3% in PTI to 30% in the Jersey Performance Index. JPI is calculated from five factors: PTA protein (weighted 50% of the total), PTA fat (weighted 20%), the Functional Trait Index (weighted 15%), PTA somatic cell score (-5%), PTA Productive Life (5%), and the newly created Functional Udder Index (5%).

In its 49th year of publication, the Jersey Journal reached 3,055 subscribers in 2002, a slight decline from its circulation in 2001. The staff produced nearly 520 pages of ads, making 2002 the fourth consecutive year that sales have exceeded 500 pages. Total pages printed for the year were 858. The October issue commemorating the 50th Anniversary of the All American Show and Sale was the largest of the year (79¼ pages advertising, 116 total pages). A new edition of the Jersey Directory, first printed in 1984, was published with the February issue. It included 675 listings from Jersey breeders and dairy industry firms.

The AJCC Research Foundation, a permanent trust operated exclusively to promote and sponsor scientific research, appropriated $24,920 for six investigations on Jersey-specific problems in 2002. Foundation net assets at year end were $752,806.

As the issues surrounding milk marketing evolve, so does the role of National All-Jersey Inc.

2002 was a year of continued controvery over USDA's final decision regarding Class III and IV pricing, released in November with an implementation date scheduled for April 1, 2003. Provisions of the new Farm Bill, including the Milk Income Loss Compensation (MILC) program, were put into effect. World trade in dairy products increasingly played a bigger role in the price paid U.S. producers. The center of attention was milk protein concentrate (MPC), imports of which have grown by 300% since 1995.

NAJ staff will continue to work with the industry to develop workable solutions to milk protein import issues. This is occuring on several different fronts. For one, NAJ supports producer efforts to preserve U.S. dairy standards of identity. Recent exposure of the use of non-standard ingredients by one major marketer of process cheese has required it to remove the identity, "pasteurized process cheese food," from packaging. More broadly, NAJ is a member of an industry coalition, Dairy Producers for Fair Trade, which advocates adoption of new tariffs on MPC and casein. Senate Bill 560 and House Bill 1160 are identical bills that would impose restrictions on these two products. While this legislation would not eliminate imports of these milk protein products, it would curb future growth. And it would allow U.S. farm milk to compete more effectively for its place in the cheese vat. NAJ is working with other dairy producer groups to try and get this legislation through the U.S. Congress in 2003.

NAJ staff also pursued opportunities to develop new, voluntary markets for multiple component pricing in 2002. Excess milk supplies dampened potential in most markets, with the notable exception of Alto Dairy in Wisconsin. After several years of development, including involvement from National All-Jersey, Alto readied for an early 2003 implementation of a cheese yield pricing program. It is the most comprehensive cheese yield program yet developed, as it values milk based on actual uses in Cheddar and mozzarella cheese in the Alto plant. The program has the potential to become a model for future cheese yield programs.

The work never ends to obtain fair market value for Jersey milk.

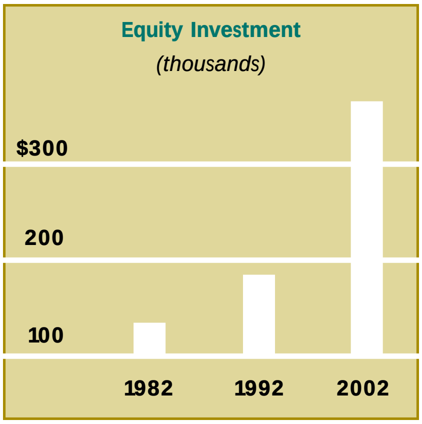
Since 1976, NAJ's Equity program has focused on providing a fair return for Jersey producers. Including the $372,485 invested during 2002 by 779 participants, almost $5 million has been directed by supporters of equitable milk pricing for its ever-evolving mission. We have had great success. But NAJ must be always ready to defend the value of Jersey milk when needed and to continue to search for new and better markets for our members' milk.

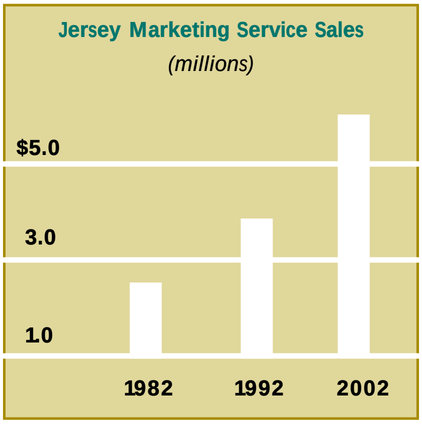
Work on trade issues and standards of identity today are just new avenues towards *increasing the value of and demand for Jersey milk and promoting equity in milk pricing.*

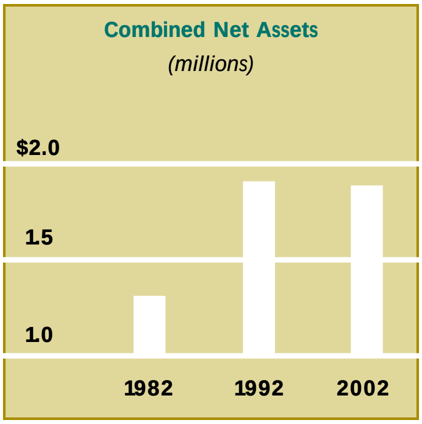
Jersey Marketing Service recorded gross sales of $6.26 million as it continues to set the highest standard for service in the industry.

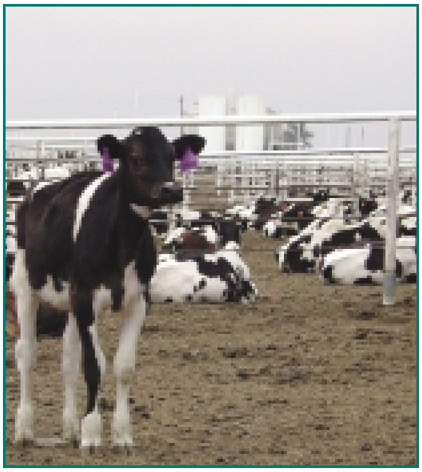
Jersey Marketing Service (JMS), a wholly owned subsidiary of National All-Jersey Inc., came off two consecutive years of $9 million in sales to market 4,627 lots in 2002 with a value of $6,258,674. It was the sixth highest gross sales year in JMS history, with the average selling price, $1,352.64, being third best in the company's 27-year history.

While the volume of cattle sold at auction declined by 41% to 2,463 lots marketed, private treaty activity remained steady at 1,497 lots. The number of embryos marketed domestically by JMS nearly tripled over 2001's marketings, to 662.









Jersey-sired calves like this one are becoming more common, because there are enough problems in the dairy business without having calving and breeding problems on top of them. Their dams have no problem delivering them, standing up and getting right to work. But that's not all. Herd owners like the way these Jersey-sired heifers are producing as cows, especially the higher milkfat and protein tests that pay off with component premiums. These heifers recorded in the AJCA's Jersey Expansion identification service will be vital in growing the Jersey population in the United States.

Neal Smith
Executive Secretary and
Chief Executive Officer

Management Team

Accounting
Vickie J. White

Development
Cherie L. Bayer, Ph.D.

Herd Services
Erick Metzger

Jersey Journal and Field Service
David A. Jordan

Jersey Marketing Service
Herby D. Lutz

National All-Jersey Inc.
Michael Brown

Research and Genetic Development
Cari W. Wolfe

The Jersey organizations are poised for expansion, from a position of fiscal strength.

The performance of our organizations in 2002 is something to be proud of. It reflects the great strides that we have made to:

- Increase profitable milk production;
- Increase the value of and demand for Jersey milk; and
- Increase the value of and demand for Jersey cattle.

At year end 2002, the balance sheet of the Jersey organizations showed combined net assets of $1,833,578. On February 28, 2003, the 15-year mortgage on our office building was retired.

But as dramatic as the breed growth reported here has been, and as enthusiastic as the adoption of AJCA-NAJ services has been, we are a long way from reaching our potential. The current economy creates opportunities for Jersey owners to supply a demand for cattle that may not exist when milk prices are high. Everybody makes money when the price of farm milk is good. Low milk prices, on the other hand, affect everyone's profit margin, but not equally. They affect Jerseys less because of the cow's ability to produce quality milk components, especially milk protein, in a concentrated and efficient manner.

But that's only half of the story. There's greater awareness of the 150-day advantage in productive herd life that a Jersey cow has, and where it comes from. Small, yet economically important differences in many traits are contributing to a better bottom line. Commercial producers know that Jerseys don't have calving problems, that Jerseys can be bred to calve earlier in life, that Jerseys have the highest reproductive efficiency of all dairy breeds. They want those differences working for them, in their own businesses.

The Jersey breed is poised for unprecedented expansion.

As part of their annual review, your elected leadership study the objectives of each company, scrutinize the three-year averages for key activities, and determine the long-term goals for the organizations. Based upon three-year averages, the goals for 2005 are:

- 70,000 registrations (2000-'01-'02 average is 68,003);
- 30,000 transfers ('00-'01-'02 average is 20,089);
- 110,000 cows on performance programs (vs. three-year average of 101,195);
- $460,000 Communication revenue (vs. three-year average of $432,000);
- $450,000 in NAJ revenue ('00-'01-'02 average is $370,750); and
- $12 million in JMS gross sales ('00-'01-'02 average is $8.46 million).

Breed goals were set at m.e. cheese yield of 2,300 lbs. per cow (currently 2,159 lbs.); 35 first-summary A.I. bulls each quarter; and for 100% of Jersey producers to be paid full value for their milk components.

Such goals are challenging, but they are just the kind we need for the Jersey breed and our organizations to reach their full potential. Each and every person participating in the Jersey organizations has had a hand in making 2002 one of the best we have ever had. Let's continue our successful partnership this year, next year, and for many years to come.

Neal Smith

Executive Secretary and Chief Executive Officer

Leading Indicators of Jersey Breed Growth and Improvement

	2002	1992	1982	Change ('02 v. '82)
Identification				
Animals recorded	72,507	61,025	58,569	+ 23.8%
Animals transfered	17,912	23,097	24,411	- 26.6%
Performance Programs				
Herds enrolled	916	782	648	+ 41.4%
Cows enrolled	109,608	53,701	44,565	+146.0%
Production (DHIR: 305-day, 2x, ME)				
Protein *(*true protein)*	641*	552	—	
Milk	18,039	14,879	12,067	+ 49.5%
Fat	823	695	578	+ 42.4%
Equity Investment	$372,485	$190,458	$120,050	+210.3%
Jersey Marketing Service				
Gross for private treaty sales	$1,813,649	$1,578,467	$1,233,792	+ 47.0%
Gross for public sales	4,445,025	2,304,745	1,412,845	+214.6%
Combined Net Assets	$1,833,578	$1,852,248	$1,319,153	+ 39.0%

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To the Members of:
American Jersey Cattle Association and National All-Jersey Inc.

The American Jersey Cattle Association (AJCA), National All-Jersey Inc. (NAJ), and its subsidiary, All-Jersey Sales Corporation (AJSC), reported a combined net income of $84,314 for the year ended December 31, 2002 before unrealized loss on investments.

Revenues and cost of operations for each company for the year ended December 31, 2002 are summarized as follows:

American Jersey Cattle Association

Revenues	$2,320,691
Expenditures	2,200,639
Increase in Net Assets Before Net Unrealized Loss on Investments	$ 120,052

National All-Jersey Inc. and Subsidiary

Revenues	$ 730,371
Expenditures	766,109
Decrease in Net Assets Before Net Unrealized Loss on Investments	$ (35,378)

Effective December 31, 2002, the AJCA and NAJ Boards of Directors froze the defined benefit pension plan. This action required a significant reduction to both companies' pension liability at year-end. At this time the Boards are awaiting additional information from the plan's administrator before taking any further action.

Combined revenues are as follows:

Identification Services	36%
Performance Services	20%
Jersey Journal	15%
Equity	13%
Cattle Marketing Services	11%
Other	4%
Investments	1%

The organizations' marketable securities are reported at market value of $1,299,291. Accounting Standards require marketable securities to be reported at market value, therefore an unrealized loss was recorded at December 31, 2002 to reflect the variance in cost versus fair market value of the companies' investments.

Net assets, reported at market value, as of December 31, 2002 were recorded as follows:

American Jersey Cattle Association	$1,291,706
National All-Jersey Inc. and Subsidiary	541,872
Total (combined) net assets	$1,833,578

The AJCC Research Foundation reported net assets of $752,806 at year-end December 31, 2002. The Research Foundation funded six (6) projects totaling $24,920 in 2002. In addition, the seven (7) scholarship funds administered by the AJCA provided scholarships totaling $5,040 in 2002. Total combined net assets in the scholarship funds as of December 31, 2002 were $143,066.

We encourage the membership to review the financial statements and accompanying footnotes prepared by our certified public accountants, Hausser + Taylor LLP. These statements clearly state the financial position of the companies at December 31, 2002.

Respectfully submitted,

Vickie J. White

Vickie J. White
Treasurer

To the Board of Directors
American Jersey Cattle Association

Independent Auditors' Report

We have audited the accompanying statements of financial position of American Jersey Cattle Association as of December 31, 2002 and 2001, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Jersey Cattle Association as of December 31, 2002 and 2001, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hausser + Taylor LLP
Columbus, Ohio
February 26, 2003

STATEMENTS OF FINANCIAL POSITION

December 31, 2002 and 2001

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	$ 108,984	$ 1,500
Investments (Note 9)	167,660	194,359
Accounts receivable, net of allowance for doubtful accounts of $58,400 and $51,000, respectively	244,091	209,794
Advances due from National All-Jersey Inc. and All-Jersey Sales Corporation	59,195	126,999
Supplies and inventories, at cost	17,734	14,128
Prepaid expenses and other assets	60,152	53,604
Total current assets	657,816	600,384
PROPERTY AND EQUIPMENT, AT COST (Notes 7 and 8)		
Land	68,000	68,000
Building	429,060	429,060
Operating equipment	1,227,720	1,213,561
Software development	532,042	504,568
	2,256,822	2,215,189
Less accumulated depreciation	1,495,436	1,390,686
	761,386	824,503
OTHER ASSETS		
Investments:		
Building fund (Notes 6, 7 and 9)	699,289	829,339
Deferred compensation plan (Note 3)	6,464	—
Deferred costs, net of accumulated amortization of $0 and $32,174, respectively	—	8,043
Total other assets	705,753	837,382
	$2,124,955	$2,262,269

LIABILITIES AND NET ASSETS	2002	2001
CURRENT LIABILITIES		
Current portion of long-term debt (Note 7)	$ 48,171	$ 51,346
Current portion of unexpired subscriptions and directory listings	37,070	25,023
Current portion of deferred compensation plan (Note 3)	7,563	9,866
Accounts payable	17,436	23,299
Accrued expenses	52,198	31,628
Awards, All American Show and Sale	39,997	39,589
Awards, Jersey Jug	10,660	11,003
Unearned fees and remittances	260,532	275,780
Accrued pension obligation (Note 4)	17,414	160,401
Total current liabilities	491,041	627,935
NONCURRENT LIABILITIES		
Long-term debt, net of current portion (Note 7)	304,730	272,461
Unexpired subscriptions and directory listings, net of current portion	37,478	37,534
Deferred compensation plan, net of current portion (Note 3)	—	5,212
	342,208	315,207
Total liabilities	833,249	943,142
NET ASSETS		
Unrestricted:		
Designated (Note 6)	774,172	906,722
Undesignated	517,534	412,405
Total net assets	1,291,706	1,319,127
	$2,124,955	$2,262,269

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2002 and 2001

	2002	2001
REVENUES		
Fees	$1,731,934	$1,642,764
Jersey Journal advertising and subscriptions	445,660	425,267
Interest and dividend income	23,291	28,265
Other	25,981	22,342
Total revenues	2,226,866	2,118,638
COST OF OPERATIONS (Note 2)		
Salaries, service, and administrative	1,666,636	1,589,133
Jersey Journal publishing	409,755	359,291
Depreciation	124,842	128,347
Interest expense	21,963	29,497
Total cost of operations	2,223,196	2,106,268
INCREASE IN NET ASSETS FROM OPERATIONS	3,670	12,370
OTHER EXPENSE (INCOME)		
Net loss from All American Show and Sale	24,105	7,985
Net unrealized loss on investments	147,473	139,070
Net pension cost (Note 4)	(142,987)	—
Total other expense	28,591	147,055
DECREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	(24,921)	(134,685)
EXPENDITURES FROM DESIGNATED NET ASSETS (Note 6)		
Research and development	2,500	2,000
Total expenditures from designated net assets	2,500	2,000
DECREASE IN NET ASSETS	(27,421)	(136,685)
NET ASSETS—Beginning of year	1,319,127	1,455,812
NET ASSETS—End of year	$1,291,706	$1,319,127

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flow have not been included with these reports. A copy is available upon request.

Note 1. Significant Accounting Policies

A. Organization and Purpose. In 1868, The American Jersey Cattle Club was organized. The American Jersey Cattle Club was incorporated under a charter granted by special act of the General Assembly of New York on April 19, 1880. On July 1, 1994, the Club was reincorporated in the State of Ohio, and the name was changed to American Jersey Cattle Association (AJCA or the "Association").

The purposes of the American Jersey Cattle Association, an association of Jersey breeders, are to improve and promote the breed of Jersey cattle in the United States and to maintain such records and activities as the Association deems necessary or conducive to the best interests of the breeders of Jersey cattle. The American Jersey Cattle Association's objective is to provide programs and services to its members that increase the profitability of Jersey cattle.

B. Basis of Accounting. The accrual basis of accounting has been used in the preparation of the financial statements. Revenues for services provided to members are recognized in the period in which the services are performed. Subscription and directory listing revenues are recognized in the period earned.

C. Cash and Cash Equivalents. For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

D. Accounts Receivable. AJCA extends unsecured credit to members under normal terms. Unpaid balances begin accruing interest 30 days after the invoice date at a rate of 1.5% per month. Unless specified by the member, payments are applied first to accrued interest; then to the oldest unpaid invoice. Accounts receivable are presented at the amount billed plus any accrued and unpaid interest. Management estimates an allowance for doubtful accounts, which was $58,400 and $51,000 as of December 31, 2002 and 2001, respectively. The estimate is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. Bad debt expense of $18,000 and $10,452 was recognized for the years ended December 31, 2002 and 2001, respectively as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence of a member's insolvency or otherwise determines that the account is uncollectible.

E. Property and Equipment. AJCA provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets, utilizing the straight-line method, generally as follows:

Class of Assets	Useful Lives
Building	31 1/2 years
Operating equipment	3 –10 years
Software development	15 years

Software development represents costs incurred as part of the Member Services Processing System (MSPS).

F. Affiliated Company. AJCA is affiliated with National All-Jersey Inc. (NAJ) and its wholly-owned subsidiary, All-Jersey Sales Corporation (AJSC). These entities conduct operations from the same facility and have certain common directors, officers, and staff. Therefore, it is necessary to allocate jointly incurred expenses, such as salaries, rents, utilities, depreciation, and other costs of service and administration. The costs of operations reflected in the Statement of Activities and Changes in Net Assets of AJCA are net of reimbursements of $65,369 and $83,236 for 2002 and 2001, respectively, from the above-mentioned affiliated companies for these jointly incurred costs. Also, AJSC has available a $175,000, due on demand, line of credit which is collateralized by investments held by AJCA and NAJ. No funds were drawn on the line as of December 31, 2002 or 2001.

G. Income Taxes. AJCA is exempt from Federal taxes on income under Section 501(c)(5) of the Internal Revenue Code, except for income derived from unrelated business activities, as defined in the Code. For 2002 and 2001 these activities include primarily magazine advertising. Income tax expense for 2002 and 2001 amounted to $5,445 and $0, respectively.

H. Concentration of Credit Risk. The Association maintains its demand deposits in a financial institution which is insured by the Federal Deposit Insurance Corporation up to $100,000. Cash equivalents and investments are maintained in trust accounts with a trust company. Additionally, AJCA's trade receivables result from registrations and related fees due from members who are located throughout the United States.

I. Deferred Costs. The Association has capitalized certain costs, amounting to $138,273, associated with the development of a long term strategic information system plan and a business re-engineering project. These costs are being amortized over a five year period, which ended in 2002, utilizing the straight-line method. Amortization expense amounted to $8,043 and $25,365 in 2002 and 2001, respectively.

J. Use of Estimates . The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Investments. The Association utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 9 for further discussion with respect to investments.

L. Unearned fees and remittances. Unearned fees and remittances represent amounts received in advance for registrations, transfers and total performance evaluation.

Note 2. Functional Expenses

The Association's operating expenses by functional classification for 2002 and 2001 are as follows:

	2002	2001
Records	$ 337,831	$ 341,595
Data Processing	271,639	261,085
Performance	416,181	375,693
Jersey Journal	409,755	359,291
Information	81,926	89,863
Field	349,163	343,511
Accounting, Administration, and General	356,701	335,230
Total cost of operations	$2,223,196	$2,106,268

Note 3. Investments Restricted for Deferred Compensation

AJCA has entered into a deferred compensation plan with a former executive. An investment trust has been established to fund the plan. At December 31, 2002 and 2001, the balances in the trust, at fair market value, are $6,464 and $0, respectively. The cost of the plan is shared by National All-Jersey Inc. and American Jersey Cattle Association.

Note 4. Pension Plans

Effective December 31, 2002, the Board of Directors of AJCA and National All-Jersey Inc. and Subsidiary have frozen the defined benefit pension plan. The plan's administrator has not determined the amount required to fund the plan if management would decide to terminate the plan. The amount required to terminate the plan could be in excess of the accrued pension obligation.

AJCA and National All-Jersey Inc. and Subsidiary have a non-contributory defined benefit pension plan covering substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. AJCA's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits payable to plan participants. The plan assets are stated at fair value and primarily consist of bond and stock funds. At December 31, 2002, the pension administrator reported a requirement for an accrued pension liability of $22,514 and as a result, AJCA and NAJ and Subsidiary have adjusted their financial statements at December 31, 2002, to reflect this liability resulting in pension expense of $(174,990) for 2002. At December 31, 2001, the pension administrator reported a requirement for an accrued pension liability of $197,504 and as a result, AJCA and NAJ and Subsidiary have adjusted their financial statements at December 31, 2001 to reflect this liability resulting in pension expense of $37,192 for 2001. AJCA's portion of pension expense amounted to $(142,987) and $29,411 for 2002 and 2001, respectively, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 2002 and 2001, is as follows:

Net periodic pension cost for 2002 and 2001, includes the following components:

	2002	2001
Service cost - benefits earned during the period	$73,300	$66,603
Interest cost on projected benefit obligation	90,433	76,038
Expected return on assets	(86,259)	(97,035)
Net amortization and deferral	(1,614)	(8,414)
Contributions	(8,349)	—
FAS 88 expense	(242,501)	—
Net periodic pension cost for the plan	(174,990)	37,192
Less net periodic pension cost of NAJ and Subsidiary	32,003	(7,781)
Net periodic pension cost	$(142,987)	$ 29,411

Assumptions used in the accounting as of December 31, 2002 and 2001 were:

	2002	2001
Discount rate	7.50%	7.50%
Rate of increase in compensation levels	—	5.50%
Long-term rate of return	9.00%	9.00%

The following table sets forth the plan's funded status and amounts recognized in AJCA's Statement of Financial Position at December 31, 2002 and 2001 for its pension plan.

	2002	2001
Actuarial present value of benefit obligation:		
Vested benefit obligation	$1,037,285	$ 913,030
Accumulated benefit obligation	$1,067,208	$ 955,470
Projected benefit obligation	$1,067,208	$1,156,486
Plan assets at fair value	(1,044,694)	(1,175,200)
Plan assets in excess of projected benefit obligation	22,514	(18,714)
Unrecognized net asset at transition	—	18,062
Unrecognized net gain	—	198,156
Accrued pension obligation for the plan	22,514	197,504
Less accrued pension obligation of NAJ and Subsidiary	(5,100)	(37,103)
Accrued pension obligation	$ 17,414	$ 160,401

The Association maintains a 401(k) plan covering substantially all employees. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2002 and 2001 amounted to $14,661 and $12,894, respectively.

Note 5. Operating Lease

AJCA is obligated under certain lease agreements, for office equipment, which are classified as operating leases. Minimum future payments under the leases are as follows:

Year Ending December 31	Amount
2003	$12,474
2004	5,197
	$17,671

Lease expense for 2002 and 2001 amounted to $29,371 and $28,298, respectively.

Note 6. Designation of Net Assets

The Board of Directors has designated net assets for the following at December 31:

	2002	2001
Building - established with original proceeds from sale of former operating facility; invested in securities and used as collateral for building loan (see Notes 7 and 9)	$699,289	$829,339
Research and development - 50% of American Jersey Cattle Association's excess of revenues over cost of operations after preceding appropriations - established in 1987	74,883	77,383
	$774,172	$906,722

In 2002, $2,500 was expended from the research and development designated net assets.

Note 7. Long-Term Debt

Liability for long-term debt on the building is shared jointly by AJCA and NAJ. The Board of Directors of AJCA and NAJ have agreed to reflect the building and debt on a ratio of 85% to AJCA and 15% to NAJ, based on the occupancy being utilized by the respective organizations.

AJCA's share consists of a fifteen year variable rate note, amounting to $3,365 and $29,722 at December 31, 2002 and 2001, respectively, with fixed principal payments which total $26,357 annually. Interest is equal to prime (4.25% and 4.75% at December 31, 2002 and 2001, respectively). Final payment is due February 2003. The note is collateralized by the building and AJCA's investment securities obtained from the proceeds of the sale of a former operating facility (see Notes 6 and 9).

In 1998, long-term debt was obtained in the amount of $441,000, for financing of the development of computer software. The original note required interest at 7.9%. During 2001, the Association refinanced the note at 7.15%. Final payment was due May 2013. During 2002, the Association refinanced the note and borrowed an additional $100,000 for building improvements. The new note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2002 and 2001, the note has an outstanding balance of $411,217 and $345,982, respectively. Liability for this debt is shared jointly by AJCA, National-All Jersey Inc. and All-Jersey Sales Corp. The Board of Directors of AJCA and NAJ have agreed to allocate the cost of the software and applicable debt at a ratio of 85% to AJCA, 7.5% to NAJ, and 7.5% to AJSC, based on expected utilization by the respective organizations. AJCA's share amounts to $349,536 and $294,084 at December 31, 2002 and 2001, respectively. This loan is collateralized by the building and the building fund investments (see Note 9).

Principal payments required on these long-term notes are summarized as follows:

Year Ending December 31	Amount
2003	$ 48,171
2004	47,098
2005	49,507
2006	52,040
2007	54,703
Thereafter	101,382
	$352,901

Notes continued on page 15.

To the Board of Directors
National All-Jersey Inc.

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National All-Jersey Inc. and Subsidiary as of December 31, 2002 and 2001, and the changes in their consolidated net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hausser + Taylor LLP
Columbus, Ohio
February 26, 2003

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2002 and 2001

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	$ 434,216	$ 231,445
Custodial cash	152,611	788,756
Investments (Note 10)	432,342	469,786
Accounts receivable, net of allowance for doubtful accounts of $6,500 in 2002 and 2001	55 ,436	129,497
Interest receivable	347	336
Prepaid expenses	2,639	2,032
Recoverable income taxes (Note 8)	8,417	—
Deferred income taxes (Note 8)	3,400	1,400
Total current assets	1,089,408	1,623,252
PROPERTY AND EQUIPMENT, AT COST (Note 7)		
Land	12,000	12,000
Building	75,717	75,717
Software development	79,652	79,652
Vehicles	83,955	50,205
	251,324	217,574
Less accumulated depreciation	85,925	53,954
	165,399	163,620
OTHER ASSETS		
Investments restricted for deferred compensation plans (Note 3)	2,155	2,176
Deferred income taxes (Note 8)	2,800	—
	4,955	2,176
	$1,259,762	$1,789,048

LIABILITIES AND NET ASSETS	2002	2001
CURRENT LIABILITIES		
Current portion of long-term debt (Note 7)	$ 19,861	$ 20,420
Current portion of deferred compensation plan (Note 3)	2,522	2,467
Accounts payable	24,584	11,418
Advances due to American Jersey Cattle Association	59,195	126,999
Fees due consignors	463,386	784,810
Accrued expenses	18,285	39,106
Advances and reserves for advertising (Note 4)	31,828	31,828
Deferred income	27,994	24,228
Accrued pension obligation (Note 6)	5,100	37,103
Total current liabilities	652,755	1,078,379
NONCURRENT LIABILITIES		
Deferred income taxes (Note 8)	—	6,600
Long-term debt, net of current portion (Note 7)	65,135	70,801
Deferred compensation plan, net of current portion (Note 3)	—	2,267
	65,135	79,668
Total liabilities	717,890	1,158,047
NET ASSETS		
Unrestricted:		
Designated (Note 5)	61,855	63,355
Undesignated	480,017	567,646
Total net assets	541,872	631,001
	$1,259,762	$ 1,789,048

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2002 and 2001

	2002	2001
REVENUES		
Equity project fees	$ 372,485	$ 337,194
Commissions	328,121	524,164
Interest and dividend income	13,030	29,290
Other	16,735	23,522
Total revenues	730,371	914,170
COST OF OPERATIONS (Note 2)		
Salaries	334,434	341,141
Supplies, service, and administration	402,062	458,647
Field services	39,988	50,236
Bad debt expense	3,000	—
Depreciation	31,971	12,045
Interest	3,876	5,205
Total costs of operations	815,331	867,274
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(84,960)	46,896
OTHER EXPENSE (INCOME)		
Net unrealized loss on investments	53,391	50,092
Net pension cost (Note 6)	(32,003)	—
	21,388	50,092
DECREASE IN NET ASSETS BEFORE INCOME TAXES AND EXPENDITURES FROM DESIGNATED NET ASSETS	(106,348)	(3,196)
INCOME TAX EXPENSE (BENEFIT) (Note 8)	(18,719)	7,167
DECREASE IN NET ASSETS BEFORE EXPENDITURES FROM DESIGNATED NET ASSETS	(87,629)	(10,363)
EXPENDITURES FROM DESIGNATED NET ASSETS (Note 6)		
Research and development	1,500	—
DECREASE IN NET ASSETS	(89,129)	(10,363)
NET ASSETS - Beginning of year	631,001	641,364
NET ASSETS - End of year	$541,872	$631,001

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flow have not been included with these reports. A copy is available upon request.

Notes To Financial Statements

Note 1. Significant Accounting Policies

A. Organization and Purpose. National All-Jersey Inc. (NAJ) (the "Company") was incorporated in the State of Ohio in 1957. Its purpose is to promote the increased production and sale of Jersey milk and milk products, and to promote Jersey cattle and the interests of breeders of Jersey cattle.

All-Jersey Sales Corporation (AJSC) (Subsidiary), a wholly-owned subsidiary of National All-Jersey Inc. was incorporated in the State of Ohio in 1961. It is a for-profit corporation with the original purpose of developing and selling All-Jersey milk advertising materials. In 1970, the corporation started a cattle marketing service, Jersey Marketing Service (JMS). The purpose of Jersey Marketing Service is to provide marketing assistance to buyers and sellers of Jersey cattle and embryos.

The objectives of both National All-Jersey Inc. and All-Jersey Sales Corporation are to increase the value of and demand for Jersey milk and cattle.

B. Principles of Consolidation. The consolidated financial statements include the accounts of NAJ and its wholly-owned subsidiary, AJSC. All significant intercompany accounts and transactions have been eliminated.

C. Basis of Accounting. The accrual basis of accounting has been used in the preparation of the consolidated financial statements.

D. Cash and Cash Equivalents. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

E. Custodial Cash. The Company maintains cash due consignors in separate custodial cash accounts. See Note 1K for further discussion.

F. Affiliated Company. National All-Jersey Inc. and its wholly-owned subsidiary, All-Jersey Sales Corporation, are affiliated with American Jersey Cattle Association (AJCA) (the "Association"). These entities conduct operations from the same facility and have certain common directors, officers, and staff. Therefore, it is necessary to allocate jointly incurred expenses, such as salaries, rents, utilities, depreciation, and other costs of services and administration. The cost of operations reflected in the Consolidated Statements of Activities and Changes in Net Assets of the Company for 2002 and 2001 include reimbursements of $65,369 and $83,236, respectively, paid to the Association for these jointly incurred costs.

G. Property and Equipment. The Company provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets, utilizing the straight-line method, generally as follows:

Class of Assets	Estimated Useful Lives
Building	31 1/2 years
Software development	15 years
Vehicles	3 years

Software development represents costs incurred as part of the Member Services Processing System (MSPS).

H. Concentration of Credit Risk. The Company maintains its demand deposits in one financial institution which is insured by the Federal Deposit Insurance Corporation up to $100,000. Cash equivalents and investments are maintained in trust accounts with a trust company. The Company's cattle sales are primarily to domestic buyers. The Company minimizes credit risk with foreign buyers by requiring irrevocable letters of credit or cash upon sale until they have established a business relationship and understanding with the buyer.

I. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Income Taxes. National All-Jersey Inc. is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. All-Jersey Sales Corporation is not exempt from income taxes.

K. Fees Due Consignors. Fees due consignors represent amounts due to sellers of Jersey cattle from public auctions and private treaty sales managed by JMS.

L. Accounts Receivable. Jersey Marketing Service extends credit to buyers of cattle at public auction and through private treaty sales. Jersey Marketing Service typically does not pay sellers of cattle until collection from buyers has occurred. Accounts receivable are reflected at their billed amount. Management estimated an allowance for doubtful accounts, which was $6,500 as of December 31, 2002 and 2001. Bad debt expense of $3,000 and $0 was recognized for 2002 and 2001, respectively as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence that the account is uncollectible.

M. Investments. The Company utilizes Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Consolidated Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. See Note 10 for further discussion with respect to investments.

N. Reclassifications. Certain 2001 items have been reclassified to conform with the 2002 presentation.

Note 2. Functional Expenses

The Company's operating expenses by functional classifications for 2002 and 2001 are as follows:

	2002	2001
National All-Jersey Equity program	$303,166	$271,849
Accounting, administration, general and field service	63,027	61,292
All-Jersey Sales (JMS)	449,138	534,133
Total cost of operations	$815,331	$867,274

Note 3. Investments Restricted for Deferred Compensation

National All-Jersey Inc. has entered into a deferred compensation plan with a former executive. At December 31, 2002 and 2001, the balances in the trust at fair market value are $2,155 and $2,176, respectively. The cost of the plan is shared by National All-Jersey Inc. and American Jersey Cattle Association.

Note 4. Advances and Reserves for Advertising

	December 31, 2002	December 31, 2001
5% National - represents funds accumulated as a percentage of member advances to be applied to the cost of national or regional advertising for the benefit of all members	$31,828	$31,828

Note 5. Designation of Net Assets

The Board of Directors have designated net assets for the following:

	December 31, 2002	December 31, 2001
Research and development:		
Approximately 2.5% of annual gross revenues and 50% of National All-Jersey excess revenues over cost of operations after 2.5% appropriation. In 2002 and 2001, no appropriations were made	$61,855	$ 63,355

Note 6. Pension Plans

Effective December 31, 2002, the Board of Directors of National All-Jersey Inc. and AJCA have frozen the defined benefit pension plan. The plan's administrator has not determined the amount required to fund the plan if management would decide to terminate the plan. The amount required to terminate the plan could be in excess of the accrued pension obligation.

The Company and Subsidiary and American Jersey Cattle Association have a non-contributory defined benefit pension plan covering substantially all employees 21 years of age or older, who have been employed for one year with at least 1,000 hours of service. The Company's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits payable to plan participants. The plan assets are stated at fair value and primarily consist of bond and stock funds. At December 31, 2002, the pension administrator reported a requirement for an accrued pension liability of $22,514 and, as a result, the Company and Subsidiary and American Jersey Cattle Association have adjusted their financial statements at December 31, 2002 to reflect this liability resulting in pension expense of $(174,990) for 2002. At December 31, 2001, the pension administrator reported a requirement for an accrued pension liability of $197,504 and, as a result, the Company and Subsidiary and American Jersey Cattle Association have adjusted their financial statements at December 31, 2001 to reflect this liability resulting in pension expense of $37,192 for 2001. The Company's portion of pension expense amounted to $(32,003) and $7,781 for 2002 and 2001, respectively, which includes amortization of past service costs over 30 years.

The projected status of accumulated plan benefits for the combined entities as of December 31, 2002 and 2001 is as follows:

Net periodic pension cost for 2002 and 2001 includes the following components:

	2002	2001
Service cost - benefits earned during the period	$ 73,300	$ 66,603
Interest cost on projected benefit obligation	90,433	76,038
Expected return on assets	(86,259)	(97,035)
Net amortization	(1,614)	(8,414)
Contributions	(8,349)	—
FAS 88 expense	(242,501)	—
Net periodic pension cost for the plan	(174,990)	37,192
Less net periodic pension cost of AJCA	142,987	(29,411)
Net period pension cost	$ (32,003)	$ 7,781

Assumptions used in the accounting as of December 31, 2002 and 2001 were:

	2002	2001
Discount rate	7.50%	7.50%
Rate of increase in compensation levels	—	5.50%
Long-term rate of return	9.00%	9.00%

The following table sets forth the plan's funded status and amounts recognized in the Company's Statement of Financial Position at December 31, 2002 and 2001 for its pension plan.

	2002	2001
Actuarial present value of benefit obligation:		
Vested benefit obligation	$1,037,285	$ 913,030
Accumulated benefit obligation	$1,067,208	$ 955,470
Projected benefit obligation	$1,067,208	$1,156,486
Plan assets at fair value	(1,044,694)	(1,175,200)
Plan assets in excess of projected benefit obligation	22,514	(18,714)
Unrecognized net asset at transition	—	18,062
Unrecognized net gain	—	198,156
Accrued pension obligation for the plan	22,514	197,504
Less accrued pension obligation of AJCA	(17,414)	(160,401)
Accrued pension obligation	$ 5,100	$ 37,103

The Company maintains a 401(k) plan covering substantially all employees. The plan allows for a matching contribution of 25% of employees' contributions. Contributions for 2002 and 2001 amounted to $3,803 and $6,837, respectively.

Note 7. Long-Term Debt

Liability for long-term debt on the building is shared jointly by the Company and American Jersey Cattle Association. The management of the Company and AJCA have agreed to reflect the building and debt on a ratio of 15% to the Company and 85% to American Jersey Cattle Association, based on the occupancy being utilized by the respective organizations.

The Company's share consists of a fifteen year variable rate note, amounting to

$594 and $5,245 at December 31, 2002 and 2001, respectively, with fixed principal payments which total $4,651 annually. Interest is equal to prime (4.25% and 4.75% at December 31, 2002 and 2001, respectively). Final payment is due February, 2003. The note is collateralized by the building and American Jersey Cattle Association's investment securities obtained from the proceeds of the sale of a former operating facility.

In 1998, long-term debt was obtained in the amount of $441,000 for the financing of the development of computer software. The original note required interest at 7.9%. During 2001, the note was refinanced at 7.15%. Final payment was due May 2013. During 2002, the Company refinanced the note and borrowed an additional $100,000 for building improvements. The new note requires monthly payments of $6,006 including interest at 5.0% through September 2009. At December 31, 2002 and 2001, the note has an outstanding balance of $411,217 and $345,982, respectively. Liability for this debt is shared jointly by AJCA, National All-Jersey, Inc. and All Jersey Sales Corporation. The Board of Directors of AJCA and NAJ have agreed to allocate the cost of the software and applicable debt at a ratio of 85% to AJCA, 7.5% to NAJ and 7.5% to AJSC, based on expected utilization by the respective organizations. NAJ's and AJSC's share amounts to $61,681 and $51,898 at December 31, 2002 and 2001, respectively, with monthly principal payments of $368 plus interest. The long-term debt is collateralized by AJCA's investment securities obtained from the proceeds of the sale of a former operating facility.

During 2001, the Company financed the purchase of a vehicle by incurring a note payable amounting to $34,078. The note requires monthly payments of $947, with interest at 0%, through December, 2004. The note is collateralized by the vehicle. At December 31, 2002 and 2001, the note has a balance of $22,721 and $34,078, respectively.

Principal payments required on these long-term notes are summarized as follows:

Year Ending December 31:	Amount
2003	$19,861
2004	19,671
2005	8,737
2006	9,184
Thereafter	27,543
	$84,996

Note 8. Income Taxes

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The deferred tax asset results from allowance for doubtful accounts, and a net operating loss carryforward for tax purposes. The deferred tax liability results from different depreciation lives for software for tax and financial reporting purposes.

Recoverable income taxes at December 31, 2002 primarily represent refunds of federal income taxes as a result of the net operating loss carryback generated in 2002.

The provision (benefit) for income taxes for the years ended December 31, 2002 and 2001 consists of the following:

	2002		
	Federal	State and Local	Total
Current	$ (6,776)	$ (543)	$ (7,319)
Deferred	(7,100)	(4,300)	(11,400)
	$(13,876)	$(4,843)	$(18,719)

At December 31, 2002, the Company has available federal and state net operating loss carryforwards of approximately $48,000 and $90,000, respectively, which expire in 2022.

	2001		
	Federal	State and Local	Total
Current	$ (3,122)	$ 1,089	$ (2,033)
Deferred	8,400	800	9,200
	$5,278	$1,889	$ 7,167

The Company's effective income tax rate for 2001 is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of exempt activities from not-for-profit activities.

Note 9. Line of Credit

The Company had available a $175,000, due on demand, line of credit with interest payable monthly at prime at December 31, 2002 and 2001. The line is collateralized by investment securities held by NAJ and American Jersey Cattle Association. No funds were drawn on the line at December 31, 2002 or 2001.

Note 10. Investments

Investment securities are carried at fair value, based on market quotes at December 31, 2002 and 2001 and are composed of the following:

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Money market	$164,168	$164,168	$149,670	$149,670
Mutual funds	372,052	268,174	370,208	320,116
	$536,220	$432,342	$519,878	$469,786

Investment income for 2002 and 2001 consists of the following:

	2002	2001
Interest and dividend income	$ 13,005	$ 28,894
Capital gain distributions	25	396
Net unrealized loss on investments	(53,391)	(50,092)
	$(40,361)	$(20,802)

American Jersey Cattle Association

Continuation of Notes To Financial Statements

Note 8. Line of Credit

At December 31, 2002, the Association has available a $100,000, due on demand, line of credit with interest payable monthly at prime. The line is collateralized by investments held by AJCA and NAJ (Notes 6 and 9). No funds were drawn on the line as of December 31, 2002 or 2001.

Note 9. Investments

Investment securities are carried at fair market value, based on market quotes, at December 31, 2002 and 2001 and are composed of the following:

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Investments included in:				
Current assets:				
Money market	$ 33,955	$ 33,955	$ 34,624	$ 34,624
Mutual funds	185,497	133,705	184,907	159,735
	219,452	167,660	219,531	194,359
Building fund:				
Money market	46,625	46,625	50,436	50,436
Mutual funds	904,208	652,664	900,969	778,903
	950,833	699,289	951,405	829,339
	$1,170,285	$ 866,949	$1,170,936	$1,023,698

Investment income for 2002 and 2001, consists of the following:

	2002	2001
Interest and dividend income	$ 24,685	$ 29,154
Capital gain distributions	25	1,111
Net unrealized loss on investments	(156,022)	(147,238)
	$ (131,312)	$ (116,973)

American Jersey Cattle Association
National All-Jersey Inc.
All-Jersey Sales Corporation

The AJCC Research Foundation exists to help find solutions for problems of the bottom line.

Research by Dr. Stephen Nickerson with colleagues from the Hill Farm Research Station at Louisiana State University in 1995 revealed that 75% of Jersey heifers from four different herds had bacterial infections in their mammary tissue before calving. Clinical mastitis was detected in 29% of the heifers and 15% of the quarters sampled. Subsequent investigations carried out by University of Tennessee researchers developed and tested an effective treatment regimen.

Before she ever enters the parlor—before the first drop of milk hits the bulk tank—it is highly likely that a heifer already harbors a mastitis infection.

Dale Smith of Hamburg, Minnesota, knows that fact from first-hand experience. He was confronted by too many mastitis infections during the hot, humid and wet summer of 2002—75% to 80% among first-calf heifers. "This should not be happening," he thought, as the problems continued to drag on into the winter. Combined with the dollars lost from dumped milk and the "heartbreaking" light quarters, "that was the breaking point."

Smith, whose herd ranks fourth in the U.S. with its 2002 averages of 24,164 lbs. milk, 1,121 lbs. fat and 878 lbs. protein, had read in the *Jersey Journal* about a program of prepartum antibiotic treatment for heifers developed by University of Tennessee researchers. He also knew of producers who had experienced success with it. "So we jumped into the program this past January."

Multiple studies, some conducted with support from the AJCC Research Foundation, have demonstrated outstanding success of using dry cow treatment to control and cure intramammary infections in first-calf heifers. Data published by the Hill Farm Research Station of Louisiana State University shows that antibiotic infusions two months prepartum are more than 90% effective in clearing mastitis infections.

Successful prepartum antibiotic therapy results in decreased somatic cell counts (SCC) and increased milk production at calving. Another advantage of treating infections prior to freshening is that no milk loss occurs during the treatment period. In contrast, says Dr. Stephen Oliver of the University of Tennessee, untreated heifers freshen with an increased SCC and produce 10% less milk in the first lactation than heifers treated before freshening.

Why does this regimen work so well? Heifers have a relatively small area of mammary tissue, thus the antibiotic treatment can penetrate the tissue to more effectively attack the infection, however large or small it may be.

Smith's results, using a dry cow treatment at eight weeks, then again at four weeks prior to calving, were "impressive. It is very little work, and low cost," he reports. "Our success rate has been 100%. Every heifer that has freshened has had no mastitis. The heifers that are on their second and third test have an extremely low somatic cell count, under 100,000."

These studies on heifer mastitis are just one example of the well-designed investigations delivering direct and immediate benefits to Jersey owners supported by the AJCC Research Foundation. Take advantage of the information they provide now, and lend your support to the Foundation so that the research can continue in the years to come.

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